

The Political Background to the Cyprus Crisis

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While there is a lot of discussion about the effort by the European Union to steal the money of the Cypriots in exchange for a bailout there is very little being written about the origins of the current standoff. The politics of the dispute are no less interesting than the economics.

What Is The Reason For The Russian Presence in Cyprus?

One of the key elements of the crisis is the role of Russia and its companies in Cyprus. Why, of all the places in the world, have they settled on doing business in Cyprus? The answer goes back to the Cold War days. The Soviet KGB had its biggest operating base outside of the Soviet Union in Cyprus. At any one time there were at least forty-five KGB officers working in Cyprus, about a third of whom came from the First Chief Directorate (INU - Innostrannoye Upravleniye, First Chief Directorate - Foreign) . The GRU (Military Intelligence) had fewer officers but maintained a regular presence and liaison with the civil and military officials of the country. The location was perfect as a base. It was very close to the troubled lands of the Middle East, especially The Soviet Union's main client, Syria, and a handy place to reach for those wishing a safe place to stay.

The Links With AKEL

They were aided in their efforts by their close ties to the powerful Cypriot Communist Party. The Cypriot Communist Party is and was a very powerful force in Cypriot politics. It was called the Progressive Party of Working people or, more commonly, AKEL (Ανορθωτικό Κόμμα Εργαζόμενου Λαού). It was led from 1949–1988 by Ezekias Papaioannou and from 1988-2009 by Dimitris Christofias who was also the sixth President of the Republic of Cyprus. Since 2009 the General Secretary of AKEL has been Andros Kyprianou, the President of the House of Representatives.

At the legislative elections on 27 May 2001, the party won 34.7% of the popular vote and 20 out of 56 seats. It was after this election that AKEL's General Secretary, Dimitris Christofias, was elected as President of the House of Representatives. Cyprus joined the EU in 2004. In the 2006 elections AKEL remained the largest political party on the island. In the second round presidential election held on 24 February 2008, General Secretary of AKEL Dimitris Christofias was elected President of the Republic of Cyprus. On 21 January 2009, Andros Kyprianou was elected general secretary of the party with 54.3% in the central committee election. On 22 May 2011, the Cypriot legislative election took place. AKEL gained 32.67% of the votes and elected 19 out of the 56 members of parliament.

The primacy of AKEL during the recent two decades of Cypriot politics made for a very easy climate in which the Russians could operate. Even after the fall of the Soviet Union the Russians stayed in Cyprus and that relationship became a key element in the new Russian

foreign and economic policy. Russians had a lot of money already parked there and had shared in local banks. Their KGB and GRU specialists were already there. Many Russians took the ships from the Russian civil marine and re-registered them under the Cypriot flag. Many of the new Russian entrepreneurs found Cyprus a handy and welcoming nation from which to operate. The situation in Russia, on the other hand, was very complicated.

The End of the Soviet Union

After the end of the Soviet Union the economy of the new Russian state was in a whirl. The remnants of the 'old order', the KGB, the GRU and the military realised that something drastic had to be done and done quickly to save the new state from economic collapse. The First Chief Directorate of the KGB and the Sixth Directorate had been concerned about the potential political and economic collapse of the USSR for a long time. Long before the August 1991 attempted coup against Gorbachev the handwriting was on the wall. The massive state trading corporations which handled all foreign trade of the Soviet Union were dissolved. The economic planning agency, Gosplan, was dissolved. The First which was responsible for foreign intelligence collection, analysis, offensive counterintelligence, and active measures had already been assembling a large cache of hard currency in banks outside Russia, especially in Cyprus. They, and the Sixth Department (which dealt with international economic programs) knew that the chaos which was about to overwhelm Russia in the wake of the political crises would leave Russia without an economic structure which could perform the tasks needed by the Russian State.

Under the Soviet system most of Russia's trade was carried on through state-trading companies. These were specialist companies dealing with grain, wood, non-ferrous metals, etc. In each, or in charge of each, were representatives of the Organs (mainly the KGB). No negotiation could take place in the USSR or overseas in which the Organs were not represented. They controlled access to the internal transport system, for exit permits for international travel, for space in the ports, and for the funding needed to buy or sell in hard currency. Their work was crucial to the business and supplemented the work of the ministries and the party organisation in each ministry. Their disappearance left an economic void...

There was also a political void. When Boris Yeltsin abolished the Communist Party's monopoly of power, the KGB rushed in to fill the political void as well. Prior to the 1990 elections for the Congresses of People's Deputies in Russia and the other Soviet republics, the KGB set up a special task force to organize and manipulate the coming electoral processes. It held political organization training courses for favoured candidates, arming them with privileged information about their constituents' problems, needs and desires. Admitted KGB officers, some 2,758 in all, ran in races for local, regional and federal legislatures across the USSR ; 86% won in the first round, according to an internal KGB newsletter.

There was also a crisis in the economic sphere. There were no domestic banks, no stock brokers, no accumulated reserves which belonged to any enterprise, and no organised internal or external market. The KGB and some of the new political leaders came up with a plan.

It was the KGB and the Komsomol that established the first stock and commodities exchanges, "private" banks, and trading houses through which the Soviets' strategic stockpiles of minerals, metals, fuel and other wealth could be sold. The West would not allow

the Soviets to dump these stockpiles of raw materials and finished goods on the open market for fear of depressing world prices.^[i]

By 1990 Russia stood in a very precarious position. It had vast wealth in terms of resources but no way to trade them; a mighty army but an army that was retreating from Eastern Europe without a shot being fired; a banking system with no liquidity as all funds were held in Moscow and there were no regional banks. There was a gold rouble trading at \$1.20 to the U.S. dollar and a free rouble trading at \$0.66. Behind all of this was a nervous and hostile West, especially the *glavni vrag*, the “main enemy” the U.S., who would certainly prevent Russia from dumping its products on the world market and who was refusing realistic credits to Russia. In addition, the break-up of the USSR into Russia and the CIS left many of Russia’s ports in the hands of local nationalists in Lithuania, Estonia and Latvia which restricted Russian access to the markets.

The leaders of the First, Fifth and Sixth Directorates of the KGB developed a two pronged plan. The first part of the plan included inviting in foreign capitalists to prepay the expenses of the factories to get production moving. These capitalists would pay for raw materials, pay for transport and earn the right to sell the completed goods on the world market. They would pay, in addition, a fee or ‘toll’ to the factory for producing the goods. This system of tolling would only work if there were an internal currency which could be used to start the payment system and establish prices. There was no state mechanism capable of handling this. So, the planners decided on an ambitious, if risky, system. They would make an alliance with the small and disorganised criminal groups in Russia to develop a parallel system to the government’s official currency business. They opened up the floodgates on a massive haemorrhage of roubles onto the world markets to get hard currency and to prime the rouble pump inside Russia.

In early 1990 trainloads and truckloads of roubles left Russia, escorted by KGB police guards, for Western Europe; especially for the money sanctuary in Cyprus. In Italy the Mafia, the Camorra and the ‘Ndragheta purchased millions of dollars’ worth of roubles from their illicit profits. Russia became the greatest laundry for money that was ever known. Bankers in the West were offered letters of credit in roubles with a Russian guarantee that these could be brought back into Russia. Santo Pasquale Morabito, a notorious Italian drug dealer and launderer for Pablo Escobar of Colombia swapped US\$4.6 billion for 70 billion roubles (or less than half the official rate). The main Sicilian outlets were Ciccio Madonia’s family in Palermo and Nitto Santapaola’s in Catania. Everyone got into the act. A Sicilian Castellamarese capo called Tommy Marsala bought half a billion roubles for the Lebanese Druse leader Walid Jumblatt, who used them to buy small arms and rockets from Russia.

The money continued to flow out of Russia. Ordinary roubles became ‘gold roubles’ when they passed the border. These were gold roubles- because they were backed by gold held in the Russian Treasury. Between 1990 and 1992 the Russian gold reserves had mysteriously disappeared. When Gregori Yavlinsky, the reformer, went to the September 1992 G-7 meeting in Bangkok he reported that of the 2,000 tons of gold in the Russian reserve only 240 tons were left. In November even these were gone. In a little over a year over US\$22 billion in gold left Russia at a heavy discount to cover the massive rouble river costs. Europe was full of stories of this group or that offering to place \$140 million with one bank or the other. The proceeds of all these sales were kept in offshore banks, usually in places like Cyprus, and only later returned to Russia in the form of cash purchases in the “shares for loans” auctions which returned a large block of the Russian economy to private investors sanctioned by the

planners. They are now the “oligarchs”, put into business by the repatriation of Russia’s offshore cash accumulation.

When this money returned to Moscow it had to be used and directed for the national good. The KGB and its allies, under Silayev and Kryuchkov, set up a system in which loyal and trusted members of the Komsomol system and friendly businessmen could form their own banks; Russian banks. Young men like Khodorkovsky, Aven, Fridman and others were chosen and set up in the money business. They used the banks to channel the returning the offshore Mafia money into long-term financial businesses. Others, like Potanin, Berezovsky, Gusinsky and later Abramov, Abramovich and others went into the resources businesses.

As this worked and metals or oil were produced and sold, these companies retained a part of the hard currency earnings the foundations of Russian capitalism were laid. As these banks and investment trusts prospered, Russia became less and less dependent on the Mafia for its business. They also became less and less dependent on Western capitalists to introduce them to commodity trading. They brought the roubles home and, in the various stages of privatization, they invested these in Russian businesses. Quite often this privatization was a sham but that wasn't the point. The point was to bring the money home and take over the shares and the businesses.

The Role of the Mafia

To effect all these changes the KGB and the Russian politicians decided that they needed the co-operation of the criminal underground. Russian organised crime is not a new phenomenon. It emerged in the Gulag as criminals were mixed in with political prisoners. The criminal leaders, *urkhas*, dominated the lives of the prisoners in the camps (and often the guards). They developed an elaborate society of criminals who agreed to be bound by a code of honour. Their leaders were *vory-v-zakone* or “thieves within the law”. They kept discipline among themselves. They even spoke an argot, *fenya*, which isolated them from the others.

Until the late 1940s Soviet organised criminality was mainly low-level and regional. It dealt with the usual prostitution, protection, illegal substance procurement and parallel trading in goods rackets. During the post war world many of the officials of state companies operated as quasi entrepreneurs on their own in selling their products to the criminal world in exchange for resources needed to continue production. These were often smuggled abroad and cash, usually hard currency, became a medium of exchange in the business world. A class of criminal traders arose (criminal only in the light of their operation on the fringes of the law) who bought and sold resources like coal, pig iron, and alumina from state-owned enterprises and arranged their delivery abroad or to the domestic users who had difficulty in getting ‘planned’ access to these resources. In addition, the whole range of consumer products demanded by the population and unavailable in the Soviet system, were offered for sale by the criminal gangs.

By the time of the collapse of the Soviet Union some of these traders (*deltsy*) had become very sophisticated and built large trading organisations which acquired goods and transported them around the world. Russian organised criminal groups, generically referred to as the ‘Mafia’ grew up alongside nascent Russian capitalism. Its growth paralleled the growth of legislation enabling private ownership of factories; the private ownership of banks; and the private ownership of stocks and shares. All of these were absent from the Russian economy

for seventy years and, as they returned or were permitted, the Mafia was in a good position to take a piece of the businesses being transacted. The Mafia initially were relatively low level players in these businesses. They were largely the muscle in the protection rackets and the carriers or wood and water in the major transactions. The business brains in the rise of organised crime came from the ranks of the intermediaries; the traders and deal makers who were associated with several of the Mafia families but who were independent of their structures. It was these intermediaries who consulted with the Party officials or the plant managers. It was the intermediaries who travelled abroad and made deals with foreign businessmen. The safest haven for these operations was Cyprus.

As industrialisation grew across Russia and large Russian companies were formed Russian organised crime, which had roots across the breadth of Russia became the middle managers of these firms because a non-Mafia middle managerial cadre didn't exist in much of Siberia and the Far East.

This symbiosis of KGB-GRU and the Mafia provided the structure of Russian capitalism. The illicit profits that didn't stay in Cyprus were sent back to Russia where they were used to buy shares in the newly privatised companies which emerged under the new oligarchs in largely rigged elections. Cyprus provided a sheltered harbour for these businesses.[\[ii\]](#) So it is small wonder that there is such a close relationship between Russia and the Cypriots.

Russian Business in Cyprus

In recent years Cyprus has also become a tourist resort for Russians on holiday. Many of Russia's largest corporations have headquarters of some of their subsidiaries in Cyprus. Companies like Rusal, Evraz and others have a massive financial presence on the island. Two of the most important are Alexander Abramov and his better-known partner, the 78th richest man in the world, Roman Abramovich. Together they own Evraz, a giant international steel company that trades on London's FTSE.

Abramov and Abramovich hold their stakes in Evraz through an investment vehicle called Lanebrook Limited. Lanebrook was incorporated in Cyprus. However, it's Abramov (worth an estimated \$4.6 billion) who was made a Cypriot citizen in 2010 for "the highest level of service to the Republic of Cyprus, and considering his business activities, naturalization is in the public interest." according to Cyprus Mail. It makes sense. Evraz has been making big investments in Cyprus. In 2008 the company announced its acquisition of a 51.4 per cent stake in the Cyprus based company, Palmrose for USD \$1.06 billion (€0.83 billion), and as of June 2010 Evraz held minority stakes in two Cypriot scrap metal companies, EKV Invest (9.6 per cent) and RVK Invest (42.6 per cent). Evraz also has a 50 per cent stake in Cyprus based Streamcore Limited, which had net assets of \$62 million in September 2009.[\[iii\]](#)

Like many other young oligarchs, Abramov went to Russia's Moscow Institute of Physics and Technology and was a scientist before he went into business. The biggest Russian shareholder in the commercial Cypriot banking system is Dmitry Rybolovlev; through a front called Odella Resources, he owns at least 5.01%, and maybe as much as 9.9% of the Bank of Cyprus. That bank owns about 80% of the domestic Russian bank, Uniastrum. Independent accounting evidence reveals there are, or recently have been, dozens of companies in the Rusal group with Cyprus-registered accounts in Bank of Cyprus, Hellenic Bank, and Alpha Bank (Greece). These companies have variants of the names Rusal and Rual. Fifteen more

companies have been identified in the Cyprus company register with variants on the name, Alumina & Bauxite. The Russians certainly have a dog in this race.[\[iv\]](#)

The Impact On Russia

On the other hand the actual impact of a tax as proposed by the Troika would not have a great impact on Russia. The deposit levy itself would, if implemented to the 9.9% level initially proposed, be too small for a serious impact. According to the Uralsib research team, led by Konstantin Chernyshev. “The Russian banking sector would lose just 1% of their interbank-related assets (0.1% of the total sector’s assets), which looks rather immaterial.” The bigger risk for Russia, Uralsib calculates, would follow if the bailout fails altogether, and the Cyprus banks default. “There are indirect implications including the hit that Russian depositors could take (Cyprus banks hold \$19 billion in non-banking Russian deposits according to Moody’s or 2% of the sector’s total deposits). Also, with a final decision on the bailout still pending, the risk of bankruptcy in Cyprus is not completely out of question. In the worst case, the Russian banking sector risks payments on \$40 billion of loans to Cyprus entities being suspended (6% of the sector’s corporate portfolio), with a chain reaction possible via rising NPLs (\$40 billion in loans is 130% of total corporate overdue loans); this would stall lending and deposit activity and damage profitability. Roughly assuming that the sector would need to fully provision \$40 billion of loans (though this is unlikely), it could end up with a net loss for the year (2012 net income amounted to \$33 billion). Sberbank denies Cyprus-related lending, while other banks with the largest exposure according to Moody’s include VTB, Alfa-Bank and Gazprombank.”

Moody’s has issued a report by Evgeny Tarzimov, claiming the proposed deposit levy would trigger an outflow of Russian client funds from the Cyprus banks. That in turn might oblige Russian banks to resupply their Cyprus subsidiaries with cash. VTB, the second largest of the state lenders after Sberbank, appears to be exposed more than others through its subsidiary, Russian Commercial Bank (RCB); Moody’s reports it had assets of \$13.8 billion and equity of \$374 million at the end of 2011. There are unverified reports that VTB’s Cyprus deposits amount to \$3 billion, with risk of loss up to \$300 million, though no direct liability for VTB or RCB.

VTB has been playing down its concern, at least to protect its share price, which has dropped 9% so far this week. Whether it has been saying the same thing to Putin is another matter. According to the Uralsib report, “the Cyprus arm [of VTB] paid RUB2.8 billion (\$100 million) in dividends for 2011, with 60% of this going to VTB – meaning that even if the group completely loses its earnings from Cyprus, which does not appear to be the case for now, it will lose less than 2% of net income. VTB does not disclose the amount of loans to Cyprus-based corporates as well as interbank deposits, while holdings of Cyprus bonds are immaterial. The bank itself does not see a major threat from this situation and believes there is little reason for concern at this point.” An analysis by Ivan Tchakarov of Renaissance Capital, released on Monday morning, counted just \$3.1 billion in Russian funds directly exposed to loss – \$1.9 billion of non-bank Russian depositors in the Cypriot banking system, and \$1.2 billion of Russian bank cash placed on deposit with Cyprus banks. Altogether, this sums to 0.24% of Russia’s 2012 gross domestic product (GDP) — “a trivial amount from a Russian macro perspective.” But “the costs could rise to non-trivial levels (2% of GDP) if Cyprus imposed capital controls,” according to the RenCap report. “Strictly speaking, the USD40bn of outstanding loans should not be impacted by the deposit haircut as: 1) these are loans and not deposits; and 2) the loans are generally used for financing activities that are

outside Cyprus and thus unrelated to the macro situation in Cyprus. Of course, if Cyprus were to impose capital controls, this would not be the case and Russian banks could face significant losses amounting to almost 2% of GDP.” Uralsib assesses the impact on the major Russian metals companies as slight. “Almost all of them have subsidiaries registered in Cyprus, but the main trading operations are carried out through trading companies registered in other countries, especially Switzerland. Although the major beneficiary shareholders reportedly often own stakes in Russian metals names via Cyprus-registered off-shore companies, the ownership/registration structure is irrelevant at the operating level for the companies.”[\[v\]](#)

Cyprus And The European Union

The Cyprus the world is watching is only half of Cyprus; the Greek-speaking half which joined the European Union on the first of May 2004 as the Republic of Cyprus. It controls about 59% of the island. The rest is part of the Turkish Republic of Northern Cyprus. After decades of communal violence between Greek and Turkish Cypriots the Greek Nationalists, with the support of the Greek military junta in Athens attempted a coup in 1974 to unite Cyprus with Greece (‘Enosis’) to put the island firmly under Greek control. Nicki Sampson overthrew the government of Makarios and fought to take over Turkish-speaking territories on the island with the support of the Greek army. The Turks (who had been waiting for such an opportunity) sent airplanes over the island and bombed Greek Cypriot positions. Hundreds of Turkish parachutists land in Turkish-areas. Thirty Turkish troop ships protected by destroyers landed 6,000 men as well as tanks, trucks, and armoured vehicles on the island. The Cypriot Greeks demanded a cease-fire. The Turks landed another thirty thousand troops on the island.

Peace talks were begun in Geneva but. In August 1974, the Turks renewed their attack, taking over more key cities. The Greek Cypriots were no match for the Turkish troops (supplied with the latest U.S. equipment). Peace was finally restored but 180,000 Greek-Cypriots had been evicted from their homes in the north. At the same time, around 50,000 Turkish Cypriots moved to the areas under the control of the Turkish Forces and settled in the properties of the displaced Greek Cypriots.

The invasion was devastating to the Cypriot Greek economy. The creation of the Turkish Cypriot Republic caused Cypriot Greeks to lose 65 per cent of its hotels, 87 per cent of its holiday complexes, 40 per cent of its schools, 48 per cent of its agricultural exports and 56 per cent of its beaches where Turkey — which controls 700,000 voters of Turkish origin in Germany — had strangled the Cypriot state by stealing 65 per cent of its hotels, 87 per cent of its holiday complexes, 40 per cent of its schools, 48 per cent of its agricultural exports and 56 per cent of its beaches.

With the support of the Greeks, Cyprus applied for membership in the European Union and, along with nine other states, joined the European Union, and the Euro when it was established. While Cyprus has felt the full impact of the decline in the fortunes of the Euro and the strict austerity measures which dropped Greece into a financial crevasse, the Turkish side of Cyprus has done very well in a haven of financial security, thanks to the sound policies of the Turkish government. The Cypriot accession to the European Union has not been an unmixed blessing.

One of the key questions that have always troubled analysts is to why the Turks invaded in such strength. One of the key reasons for this is because the U.S. had indicated to Turkey its support for the invasion in advance. In the 1970's as declassified US Government documents recently revealed, then-US Secretary of State Henry Kissinger actively encouraged and facilitated arms to the Turkish regime of Kissinger's former Harvard student and then Turkish Prime Minister Bulent Ecevit, to stage a military invasion of Cyprus; in effect partitioning the island between an ethnically Turkish north and an ethnically Greek Republic of Cyprus in the south; a division which remains. The Kissinger strategy, backed by the British was believed intended to create a pretext for a permanent U.S. and British military listening post in the eastern Mediterranean during the Cold War and as a reaction to the strength of the Russian activity on the island.[\[vi\]](#)

The U.S. has continued its efforts to diminish the stranglehold of Gazprom and the Russians on the supply of gas to Europe. Cyprus plays an important role in this effort. The discovery in late 2010 of the huge natural gas bonanza off Israel's Mediterranean shores triggered other neighbouring countries to look more closely at their own waters. The results revealed that the entire eastern Mediterranean is swimming in huge untapped oil and gas reserves. That discovery is having enormous political, geopolitical as well as economic consequences. Preliminary exploration has confirmed similarly impressive reserves of gas and oil in the waters off Greece, Turkey, Cyprus and potentially, Syria.[\[vii\]](#)

Inn July 2011 Secretary of State Hillary Clinton flew to Athens with her Special Envoy for Eurasian Energy, Richard Morningstar. Morningstar, along with his controversial aide, Matthew Bryza, have been the key Washington architects of Washington's geopolitically-motivated oil and gas pipeline projects that would isolate Russia and its Gazprom gas resources from the EU. Bryza is an open opponent of Russian Gazprom's South Stream gas pipeline that would transit the eastern Mediterranean states.[\[viii\]](#) Clearly the Obama Administration is not at all neutral about the new Greek oil and gas discoveries. Three days after Hillary left Athens the Greek government proposed creation of a new government agency to run tenders for oil and gas surveys and ultimate drilling bids.

Morningstar is the US specialist in economic warfare against Russian energy diplomacy. He was instrumental in backing the controversial B-T-C oil pipeline from Baku through Tbilisi in Georgia across to the Turkish Mediterranean port of Ceyhan, a costly enterprise designed solely to bypass Russian oil pipeline transit. He has openly proposed that Greece and Turkey drop all historic differences over Cyprus, over numerous other historic issues and agree to jointly pool all their oil and gas reserves in the Aegean Sea. He also has told the Greek government it should forget cooperation with Moscow on the South Stream and Bourgas-Alexandroupolis gas pipeline projects.[\[ix\]](#)

According to a report from Greek political analyst Aristotle Vassilakis published in July 2011, Washington's motive for pushing Greece to join forces with Turkey on oil and gas is to force a formula to divide resulting oil and gas revenues. According to his report, Washington proposes that Greece get 20% of revenues, Turkey another 20% and the US-backed Noble Energy Company of Houston Texas, the company successfully drilling in the Israeli and Greek offshore waters, would get the lion's share of 60%. [\[x\]](#)

Today the Greek Cypriot portion of Cyprus, where Noble has discovered large gas deposits, is a member of the European Union. Its President (until a few weeks ago) was Demetris Christofias; the only national leader in the European Union who is a communist. He is also a

close friend of Israel, and of Russia. In addition, he is a major critic of American foreign policy, as well as of Turkey.[\[xi\]](#)

Turkish-Israeli relations, once quite friendly, have become increasingly strained in recent years under the Erdogan foreign policies and the Marmara incident. Ankara has expressed concern about Israel's recent ties with its historic antagonists, Greece and the Greek side of Cyprus. Turkey's ally the Turkish Republic of Northern Cyprus, fears it could miss out on its fair share of the gas after Israel and Nicosia signed an agreement to divide the 250 kilometres of sea that separate them.[\[xii\]](#)

The existence and potential of these gas fields and the possibilities of a major joint gas pipeline routing to Europe is a threat to Russia and the interests of Gazprom. This is why the Russians have proposed an agreement with Cyprus seeking a monopoly of Cyprus gas finds in exchange for funding and why the Cypriots could not agree.

The Role of the Germans

The Germans have been adamant about putting pressure on Cyprus, primarily as a means of putting pressure on Russia and in maintaining adherence to the German brand of austerity economics it prescribes for others. Berlin wants first and foremost to shut down Cyprus's financial channels with Moscow, a statement baldly uttered by Frau Merkel. The Germans have been pressing several judicial organisations to rule against Russia for its alleged money-laundering activities and to relieve the dependence of Europe on Russian gas. Their claims are somewhat exaggerated. Of the eighty foreign shipping companies registered in Limassol, thirty-six are German and only three are Russian. In these anti-Russian activities Germany, on its own, is relatively powerless. If it can convince the other Europeans that they should join in the fight they feel they have a better chance of winning. In an election year the Merkel forces are also not unaware of seeking the support of the 700,000 German voting citizens of Turkish origin who look unfavourably on Greek Cyprus.

It ought to be said that while the ECB and the IMF are two sides of the Troika which has been making these demands on Cyprus the U.S. Federal Reserve Bank has a financial stake in the battle as it has a considerable investments in the assets of the ECB and the IMF. It has a strong interest in the resolution of the conflict as the repercussions of a bank run contagion elsewhere in Europe would have a negative effect on U.S. growth. Nonetheless, keeping the Russians under pressure and promoting non-Russian gas sources and deliveries are still positive attractions to U.S. planners.

The Russian Naval Base

The other area of concern is the intention of the Russians to operate a major naval base in the Mediterranean. The decision to send Russian ships to the Mediterranean's waters was first announced on March 11 by Defence Minister Sergey Shoigu. This was echoed by Admiral Chirkov, "Up to five or six ships must be on a permanent basis in the Mediterranean Sea. They should be controlled through the command of the Black Sea Fleet. Supply vessels will also be included in the permanent deployment to the Mediterranean".[\[xiii\]](#)

By 2020, the Russian Navy will include eight missile submarines, 16 multipurpose subs and 54 combat ships, Chirkov said that top Navy officers are currently in the process of

strategizing the deployment of a combat group to the Mediterranean. He also said that Russia is prepared to send combat ships to the Pacific and Indian Oceans.

On the other hand there is already a very large Russian naval base at the Syrian port of Tartus; established under a 1971 agreement with Syria, which is still staffed by Russian naval personnel. The base supports the Russian Navy's fleet in the Mediterranean Sea. During the 1970s, similar support points were located in Alexandria and Mersa Matruh, Egypt and Latakia, Syria. In 1977 the Egyptian bases were closed and the vessels moved to Tartus. The Russian Navy designates the base at Tartus the 720th Logistics Support Point.

In 1991, the Russians pulled back most of their foreign bases and wiped out their 5th Mediterranean Squadron. The remaining base at Tartus was made part of the Black Sea Fleet (in the Crimea). It is not really a base for fighting naval battles' it has three floating docks of which one is operational, a floating workshop, storage facilities, barracks and other facilities. Recently there have been visits to Tartus of a number of Russian vessels, including the Russian navy's aircraft carrier Kuznetsov and several submarines. Observers have stated that the helicopters which have been flying in Syria were based at Tartus. Several observers noted that at least one of the helicopters was the new Mi-25 helicopter gunship, not the Mi-17 helicopters sold earlier to Syria. There is some speculation as to who is flying these as there seems to have been no Syrian pilots rated on the Mi-25s.

In 2009 President Assad agreed to the port's conversion into a permanent Middle East base for Russia's nuclear-armed warships. Since 2009, Russia has been renovating the Tartus naval base and dredging the port to allow access for its larger naval vessels. It is clear that the Russians see this base in the Mediterranean as a response to the Western efforts to site missile bases near to the Russian border and see the Tartus base as an important bargaining chip in negotiations with NATO. To achieve the security of tenure for the Tartus base it is vitally important for the Russians to keep Bashar Assad in power as any successor would likely order the closing of the base or seek to extract a higher price for its continuation. Over the last two and a half months President Assad has been living with his family on a Russian naval vessel in Tartus; commuting to meetings by helicopter. It is safer and the communications are better.

However, with the likelihood that Syria might descend even further into civil war and that Assad may be toppled, the Russians are hedging their bets by negotiating the use of a naval base in Cyprus. The possibility of a Russian naval base in Cyprus is profoundly disturbing to the British at their sovereign military bases at Akrotiri (in the Greek sector) and Dhekelia (in the Turkish sector). These are important NATO bases and the presence of Russians nearby would be unnerving.

Conclusion

So the current debate about Cyprus' bailout is very important for reasons other than the fiscal tranquillity of the Eurozone. It is an epicentre of international political and military conflict in addition to its economic aspects. These considerations are very likely to determine the outcome of the negotiations currently underway.

[i] G.K. Busch , “The Jews and the Bicycle Riders”, Pravda 26/7/03

[ii] G. Busch, Free For All: The Post-Soviet Transition of Russia, Virtual Bookworm 2010

[iii] Linette Lopez, Business Insider Mar. 20, 2013

[iv] John Helmer, “The Kremlin Imposes a 10% Tax on Russians”, Dances With Bears 17/3/13

[v] John Helmer, “Putin Can Reverse 300 Years of Mistakes in the Mediterranean”, Dances With Bears” 20/3/13

[vi] Larisa Alexandrovna and Muriel Kane, “New documents link Kissinger to two 1970s coups”, Raw Story, June 26, 2007,

[vii] F. William Engdahl, “The New Mediterranean Oil and Gas Bonanza”, Global Research 27/1/13

[viii] Hellas Frappe, “Hillary came to Greece to seal oil exploration deals” Hellas Frappe Blog, July 21, 2011

[ix] ibid

[x] ibid